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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

STATINTL

FROM:	EXTENSION	NO.
[redacted] Legislative Counsel 7D43	[redacted]	OLC 73-0532
		DATE 7 MAY 1973

STATINTL

TO: (Officer designation, room number, and building)	DATE RECEIVED	DATE FORWARDED	OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
1. Mr. Brownman				
2.				
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STATINTL

If you approve of the attached statement on the normal cost of CIARDS, we will give it to [redacted] and hopefully close out the last pending item from the hearings on S. 1494 (see Memorandum for the Record of 30 April, attached).

STATINTL

We have cleared the statement with [redacted] Finance.

STATINTL

SIGNED

[redacted]
Legislative Counsel

STATINTL

Normal Cost - CIA Retirement System

The most recent actuarial study of the system was completed in 1970 by Mr. Cedric Kroll, Department of Treasury, who estimated that the normal cost of the system was 31.34 percent of the salary of the participants. Based upon the assumptions of that study, it is estimated that current funding of normal costs amounts to 19.76 percent (7 percent each for employee and Agency contributions and an estimated 2.88 percent each for employee and employer contributions transferred from the Civil Service Fund).

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30 April 1973

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Slatinshek and Hogan re Followup Items to 12 April Hearing on S. 1494, CIARDS

1. Today, in the company of [redacted] met with Frank Slatinshek, Chief Counsel, and Bill Hogan, Counsel, House Armed Services Committee, for an informal staff review of data to be supplied to the Committee as followups from the 12 April hearing on S. 1494. STAT

2. The data (attached) was favorably received, but Slatinshek wants a few words on the normal cost of the system, which I said we would be happy to provide but that the latest data is somewhat dated as it is based upon a 1968 actuarial study.

3. Slatinshek feels strongly that all Government retirement systems are unfairly burdening future generations. In response to his questions:

(a) we cited the approximately 32 percent normal cost of the CIA system and the reasons why it was higher than the Civil Service system;

(b) we discussed the alternatives of funding retirement systems from full funding to merely stabilizing the fund level to assure an adequate balance between outgo and income for the foreseeable future;

(c) we explained that the only justification for variance in the normal costs of various Federal staff retirement systems is the interest of the Government and that the employees' contribution rate should generally be the same no matter what retirement system they are in.

Slatinshek generally agreed with our observations.

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4. Followup Item:

Provide Slatinshek with a statement on the normal cost of CIARDS.

STATINTL

[redacted]

Associate Legislative Counsel

Att

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OLC/LLM:smg (1 May '73)

Followup Items From 12 April Hearing on S. 1494

Impact of the Bill on the Financial Soundness of the Fund

Adequacy of Current Contributions to the Fund

Dollar Balance in the Fund and General Expenditure Rate

Need for 2100 Retirement Quota

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Impact of the Bill on the Financial Soundness of the Fund

Reference is made to the "Impact on CIA Retirement Fund" paper which was given to the House Armed Services Committee on 11 April as a followup item to the 30 March hearing. To restate, the short term impact of this bill on the CIA Retirement Fund will be minor. The bill will permit immediate retirements which without its enactment would be delayed until 1 July 1974. In these cases, the increase in annuity payments and loss of contributions between the date of retirement and 1 July 1974 will be substantially offset by the otherwise larger annuity payments which would result in subsequent years if retirements were delayed until 1 July 1974.

This bill by itself has no long-term impact on the integrity of the CIA Retirement Fund. Since the inception of the system in 1965 we have seen a gradual reduction in the average age from 57.3 years to 54.9 years in fiscal year 1970 and 52.7 years in fiscal year 1972. This downward trend in average age may be a continuing phenomenon, but we foresee no further significant reduction in average age and would not expect it to go much, if any, below 52.0 years.

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Adequacy of Current Contributions to the Fund

1. Soundness. Currently the costs of the benefits earned under the CIA retirement system are not fully covered by the contributions to the CIA Retirement Fund or the earnings on those contributions. In addition, the costs of crediting prior military service is not funded at all and prior civilian service is inadequately funded.

2. Employee Contribution Rate. The contribution rate under the CIA system is 7 percent of salary, which is matched by the Government. This is the same rate followed by all major Federal staff retirement systems such as the Civil Service and the Foreign Service. It would not appear to be appropriate to increase the CIA participants' current contributions above the rate paid for similar benefits by other groups of Federal employees, such as Foreign Service, FBI, and other law-enforcement personnel, Secret Service, air traffic controllers, and fire fighters. Participants in these other systems receive retirement benefits equal to or superior to those provided under the CIA retirement system.

3. Higher Costs. The normal cost of the CIA retirement system is comparable to that of the Foreign Service retirement system. Unlike the Civil Service system, the matching 7 percent employee/Government contributions are inadequate to meet normal costs of the CIA Retirement system for a number of reasons:

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(a) Lower CIA Turnover--since a higher portion of participants under the CIA system earn a retirement benefit, the average cost per participant is greater than for the Civil Service system.

(b) Higher Average Salary--the salary progression between the two systems at the professional level is quite similar, but in the Civil Service system the retirement cost for the professional level is averaged with the cost of the very large number of employees whose final salaries have not progressed greatly over entrance salary.

(c) Earlier Retirement and Annuity Formula--earlier voluntary and mandatory retirement ages under the CIA system contribute to an earlier average retirement age. CIA participants also benefit from the fact that the formula for computing annuities is based upon a straight 2 percent formula for all years of service up to 35, whereas Civil Service formula uses the 2 percent factor only for all years after the first 10, using a 1 1/2 percent factor for the first 5 years and a 1 3/4 percent factor for the second 5 years. The result is that for a typical CIA career of 26 years, the annuity would be 52 percent of average salary whereas under Civil Service it would be 48 1/4 percent of average salary.

4. <u>Conclusion.</u> It is important to place the CIA Retirement Fund on a sounder financial basis. Failure to do this will result in rapidly accelerating increases in unfunded liability and in time would completely deplete the fund balance and necessitate pay-as-you-go financing through current year appropriations for the difference between expenditures for annuities and current year receipts comprised principally of employee/employer matching contributions for then active participants. In recognition of this need, the Agency currently has pending a legislative proposal to adopt provisions of law now applicable to the Civil Service and Foreign Service systems. Such legislation would generally stabilize the Fund by providing permanent appropriations authorization for the payment of interest on unfunded liability by the Treasury. It would also provide a basis for funding the cost to the Fund of prior military service which is credited to participants under the CIA retirement system. It is anticipated that the legislative proposal will be transmitted to the 93rd Congress. As required by law, an actuarial study of the Fund will be initiated before the end of 1973 and when completed will provide more detailed information covering the Fund.

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Dollar Balance in the Fund and General Expenditure Rate

The CIA Retirement Fund net worth balance on 31 March 1973 was

25X9 [redacted]

The projections of the income and expenditure rates for fiscal year 1975 and subsequent years hinge upon such action as may be taken on a legislative proposal that we anticipate submitting to the 93rd Congress to adopt provisions of law now applicable to the Civil Service and Foreign Service systems. These provisions require Treasury payment of interest on the unfunded liability, funding for the cost of prior military service credit and amortization over a 30-year period of the cost of new legislation.

On the basis of our best estimate of active participant and annuitant levels for the next several years, we have estimated receipts and expenditures with and without the benefit of the proposed funding legislation. Without the legislation, it is expected the Fund balance will begin to decrease in fiscal year 1975 and would become fully depleted in 1983. With the funding legislation, the fund balance will increase to an estimated [redacted] million by the end of fiscal year 1983 and beyond that date probably will continue to increase at a decreasing rate until sometime around the year 2000 when the fund balance will commence a slow downward trend.

25X9

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